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REPORT OF FACT FINDER
APPOINTED BY THE EMPLOYMENT RELATIONS COMMISSION
OF THE STATE OF MICHIGAN

BUREAU OF EMPLOYMENT RELATIONS
Cadillac Place - Suite 2-750
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In the Matter of:

MERC Case No. L05 B-3010

HOUGHTON LAKE COMMUNITY SCHOOLS

APPEARANCES

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1. "Michigan'S Budget Crisis and the Prospects for the Future," (*State Budget Notes,* Citizen's Research Council of Michigan, March 2006)
2. "Financing Michigan Retired Teacher pension and Health Care Benefits" (Citizens Research Council of Michigan, September 2004)
3. "Economist Sees State Lag in Changing Times" (*Detroit Free Press,* 11/3/05)
4. "Michigan Heads in Wrong Direction" (*The Detroit News,* 6/27/06)
5. "Board Cuts 14 Jobs to Keep Doors Open" (*The Houghton Lake Resorter,* 1/12/06)
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7. "Another $300,000 in Cuts Peoposed; School Officials Study Options in Budget Crunch" (*The Houghton Lake Resorter,* 3/23/06)
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30. "Health Care Realities in Holland Schools" (*Grand Rapids Press,* 11/14/05)
31. Growing Number of Districts Seek Solutions to Costly health Insurance" (*Michigan Education Report*, 12/15/05)
32. "Schools Must Trim pension, Health care Costs" (*The Detroit News*, 4/3/06)

33. “Employer Health Benefits 2005 Summary of Findings” (The Kaiser Family Foundation and Health Research and Educational Trust)
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41. “Newspaper Unions Approve Contract” (*Detroit Free Press,* 10/13/03)
42. State Workers Agree to Pay Concessions” (*Grand Rapids Press,* 11/25/03)
43. GM Workers Lose Pay for Health Care” (*The Detroit News*, 10/21/05)
44. “NWA Unions Fall into Line on Cuts to Aid Carrier” (*Detroit Free Press*, 11/8/05)
45. “Benefit Cuts Hit Public Workers” (*The Detroit News*, 12/6/05)
46. “UAW Decision helps Workers, Lear, Mendon” (*Kalamazoo Gazette*, 4/18/06)

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Payment of Continuing Education
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Insurance

IN THE MATTER OF FACT FINDING

between

HOUGHTON LAKE COMMUNITY SCHOOLS

and

HOUGHTON LAKE EDUCATION ASSOCIATION MEA/NEA

MERC Case No. L05 B - 3010

REPORT OF THE FACT FINDER

BACKGROUND

These fact finding proceedings were initiated pursuant to MCLA 423.10(d)(2)11 (1) which posits that "matters in disagreement between the parties might be more readily settled if the facts involved in the disagreement were determined and publicly known". American Federation of State, County and Municipal Employees, Council 25 v Wayne County, 152 Mich App 87, 96 (1986). The labor agreement between the parties expired June 30, 2005 and the parties conducted numerous negotiating sessions for the purpose of determining a successor agreement.

During the negotiating process for the immediately preceding two (2) labor agreements, the parties utilized a method of bargaining referred to as Target Specific Bargaining (TSB). During the bargaining for this labor agreement, this method was abandoned and a more traditional process was utilized. The first exchange between the parties was June 28, 2005 when initial proposals were exchanged between the parties. Initially the District's proposal did not include any financial proposal, however, nothing was mentioned regarding any financial "crisis". On July 27, 2005 the

District's superintendent advised that a "financial surprise" had surfaced and the District learned that several mistakes were made during the previous budget processes. These mistakes have resulted in a budget deficit for the school year. Errors in budgeting along with mistakes by the business manager were resulting in one million, three hundred thousand dollar, ($1,300,000.00) budget shortfall. Subsequent negotiating sessions could not produce a voluntary settlement, therefore the parties requested the assistance of a State Mediator. This process resulted in a year Letter of Agreement signed March 27, 2006 outlining salary and benefit savings to the District in the amount of four hundred thousand dollars ($400,000.00).

Both parties then agreed to request the assistance of a mediator from the Michigan Bureau of Employment Relations

Ultimately on October 28, 2005 the Association petitioned for fact finding through the Bureau of Employment Relations, said petition bringing about these proceedings.

CRITERIA

Fact Finders are appointed and commissioned to ascertain the facts surrounding a dispute and apply recognized criteria to make a recommendation as to the collective bargaining agreement being negotiated by the parties. In nearly every collective bargaining situation, three (3) essential economic criteria are involved:

1. A comparison with other similarly situated employers and employees (market comparison)
2. Comparison to economic conditions (economic comparison)

3. The employer's ability to pay.

These economic criteria are important as the collective bargaining agreement, as well as the employer and the employees, are influenced by the economics of the market place.

In non-economic matters, a fourth criteria mandates the Fact Finder to make fair and reasonable recommendations which accommodate the parties particular situation and which will assist to bring about a voluntary, friendly and expeditious adjustment and settlement of the differences that separated the parties and negated the possibilities of a settlement. These recommendations must be fair, legal and workable within accepted and established collective bargaining practices between employers and the legally recognized exclusive bargaining agent of the employees.

The parties submitted evidence and argument, and this Fact Finder made inquiry into the essential facts of the collective bargaining relationship between the parties, and within the criteria outlined above, makes his recommendations.

MARKET AND ECONOMIC COMPARISON

Market Comparison is one of the most significant criteria affecting negotiations in this instance. Given current economic conditions and labor markets, the State and the nation are experiencing a long sustained period wherein wages exceed the Cost of Living. In this case wage proposals have mirrored this situation. It would be imprudent, however, for the Employer to lose ground in the market place and therefore market conditions and economic conditions will weigh heavily in this Fact Finder's recommendations.

Prior to the beginning of the hearing, the parties discussed what might be considered comparables to the Houghton Lake School District that would provide the basis for a fair settlement. The District argued the C. O. O .R. Intermediate School District members were their closest competition for teachers and therefore the schools in the district are the closest comparables for this hearing. The Association, conversely, argues the position that the teachers in this district should be compared to teachers in districts that more closely mirror the position of the Houghton Lake School District.

Additional information would be accepted regarding internal comparability in relation to other employee groups with the Employer.

Exhibits prepared and presented by the Association at the Hearing were done so based on the Pre-Hearing discussions and agreement. During the hearing the Association introduced information relating to the agreed upon comparable districts and the District provided information relating to only four (4) of the six (6) C. O. O. R. ISD districts. The District also produced information relating to CODE J districts throughout the state. In the Pre-Hearing conference the parties had agreed to what specific comparables would be used at the hearing. Code J Districts were not part of this agreement, therefore, this Fact Finder will only use information from the parties that was discussed.

Although this Fact Finder believes the District is subjected to pressures caused by the level of benefits it provides its employees in comparison to contiguous school districts it is also important to consider the relative position of the teachers in this district as it relates to benefits and pay of comparable school districts throughout the district and State.

The Employer argued that its ability to manage its financial affairs was paramount in its ability to remain financially viable, though it did not argue an inability to pay.

In determining a "fair and equitable" recommendation, this Fact Finder considered all of the above criteria and factors. This Fact Finder feels it necessary to provide a recommendation that will allow the Employer to at least maintain a level of financial stability and a recommendation that will allow the teachers of Houghton Lake to maintain a level of purchasing power that will not be overly eroded.

ISSUES

INSURANCE

It is universally accepted that health insurance is one of, if not the, most expensive fringe benefits provided employees. In years past this benefit was not the concern of the parties as it is today. It is uncontroverted that the economy of the nation is suffering in a time of high health insurance coverages. The cost of providing health insurance, and paying for them, is a large part of any employers' expenses. Solutions available to employers in unionized arenas are few and far between. Carriers can be changed; benefits can be changed; co-pays and deductibles can be increased; or employees can shoulder part of the costs. This all requires negotiations between the employer and the union. At non-unionized employers the solutions are simple; changes can be made by the employer on a whim.

Employees have an equal concern in the area of health insurance. Coverages they have enjoyed in the past have provided a safety net for them and their families in the area of health care. In face of rising costs for doctor's care, medical prescriptions and hospital care, employees with employer provided health insurance coverage have not had to be concerned about the rising costs. When these costs are absorbed by the employer, the employees have received an automatic increase in a fringe benefit that is most cases was not directly tied to a wage increase. Employees have, however, paid for this benefit because as employers' costs in this area rise less money is available for other benefits such as wage increases. So while one concern of employees is answered, another is raised as their quality of life may remain stagnant as their income fails to rise in relation to the cost of living.

All of the above cited concerns of the parties are the cause of conflict at the time of negotiations. Employers become focused on reducing costs and employees focus on retaining their safety net in the health arena. Resolution of this conflict can only be achieved if employers and employees work together and realize each other's concerns. Employers must provide the best coverage possible for their employees within the confines of the finances available and employees must realize their previous first dollar coverage is no longer viable.

In this case the District proposed reducing its costs in the health insurance area by freezing the amount it would pay on a monthly basis for the premiums of its teachers. It also suggested allowing the Association to propose different carriers or coverage that would reduce the employee contribution towards the cost of the insurance. Currently the choices offered are MESSA Super Care I and Choices II with employees paying eighty dollars ($80.00) per month towards Choices II and one hundred nine dollars ($109.00) per month if Super Care I is selected. The District wishes to freeze its contribution at one thousand fifty dollars ($1,050.00) per month per family plan; eight hundred dollars ($800.00) per month for the two (2) person plan; and, four hundred dollars ($400.00) per month for single person coverage. The Association countered with splitting 50/50 with the District increased costs added to the current base rate of one thousand, one hundred, ninety-five dollars, ($1,195.00) for the Choices II PAK, effective September 1, 2006. In the 2007 - 2008 school year increased costs added to the 2006 - 2007 Choices PAK II rate of one thousand, three hundred, forty-eight dollars and sixty-one cents, ($1,348.61) would be split 50/50 with the District. In either year, teachers selecting Super Care I would pay the difference between the Board's payment and the cost of the Super Care I plan.

In both the public and private sectors of employment there has been a an immense movement towards employees absorbing more and more of the costs of health insurance. The UAW and the American car manufacturers have recently struck deals calling for a larger sharing of the costs of health insurance. The State of Michigan, as well as an increasing number of public sector employers, requires a substantial contribution on the part of the employees towards health insurance costs. Even the Associations exhibits, **Ex. 7**, show a movement towards employee contributions.

Though the Association did recognize the need for their members to share in the costs, this Fact Finder does not believe their proposal goes far enough and the District's goes too far. It is this Fact Finder's recommendation, effective with the 2006-2007 school year, the District pay ninety percent (90%) of all monthly health insurance premiums and employees pay ten percent (10%) of all monthly premiums. Though this recommendation does not provide an immediate large saving to the District it will help with future budgeting by providing some stability in insurance costs. Furthermore, the Association members will be shouldering a larger responsibility in discussions regarding future savings in that alternative carriers may lower the District's costs as well as the Association members.

WAGES

School districts in the State of Michigan are primarily funded through the Michigan School Aid Act, MCL 388.1601 *et seq*. This Act provides a formula, the Foundation Allowance, that determines the amount of monies received from the State by each school district. The exact figure is set yearly by the legislature and then is multiplied by the number of students enrolled in the school districts based on a blended count from specific designated days in September and February. As school districts enrollments ebb and sway so goes the districts funding allowance from the State. Even after the Foundation Allowance has been set it can fluctuate based on the State of Michigan's budget requirements. In 2001-2002 the District student count was at 2,203. In 2005-2006 the blended student count was 1,975 for a loss of 228 students during that time. An unblended count as of September 15, 2006 showed a further decline of 145 students from 2005-2006. Projections for student future enrollment for the District show a further decline in student population. As the student population has declines so has the District's financial income. This decline in income is part of the argument the District makes in support of position as it relates to wages.

The District has seen a fund equity balance decline from over four million dollars ($4,000,000.00) to a deficit of over one million dollars ($1,000,000.00) in a short period of time. Consequently the District laid off fourteen (14) teachers; closed two (2) schools; and made other drastic cuts in an attempt to balance the budget. During the Hearing, testimony was elicited from witnesses that pointed fingers at both the District and the Association for some of these cost overruns. The District postulates that the labor agreement between it and the Association is the major problem with the finances. The fact Finder is of the belief that both parties share in the blame. During negotiations the Association presented proposals to the District, and the District, relying on bad advice granted them in some form. The Association apparently did not question whether the terms and conditions of the contract were really affordable by the District. One result is that, in comparison to contiguous districts the expenses for mean salaries are ten percent (10%) higher.

(**Bd. Ex. 25**) In addition according to the District, employee compensation equates to eight-seven percent (87%) of the operating expenses. (**Bd. Ex 9**) Although it is not clear to this Fact Finder if this represents the compensation of all employees of the District as the Association's exhibits represent instructional salaries at 41.78% of COE. (**Assoc. Ex. 14**) According to **Bd. Ex. 20** salaries have increased a cumulative of 24.6% since 2000-2001. Taking into account step and lane increases the number jumps to 60.6%. (**Bd. Ex. 21**)

The Foundation for the District for the school year of 2006 - 2007 is seven thousand, eighty-five dollars ($7,085) per pupil. In the school year 2005 - 2006 this figure was six thousand, eight hundred, seventy-five dollars ($6,875) per pupil. In previous years the Foundation Allowance was set at six thousand, seven hundred dollars ($6,700) per pupil, however, this figure was reduced by the State Legislature in 2003 - 2004 by ninety dollars ($90) per pupil. The aforementioned decline in student count has cost the District one million, five hundred forty-five thousand, eight hundred dollars ($1,545,800) in the last four (4) years. (**Bd. Ex. 12)** The loss of one hundred (100) students in 2006 - 2007 represents a loss of seven hundred thousand dollars ($700,000) alone.

The District proposes changing the method of paying teachers from the current two column BA - MA method through twenty-seven (27) years of service to a six (6) column scale through twenty-seven (27) years with a BA, BA +20, BA +30, MA, MA +20 and MA +30. (**Bd. Ex. 5**) This new method would also drastically change the Continuing Education Units (CUE) which the District alleges is a large part of the reason for the financial problems it faces. The Association contends the CEU's are additional non-athletic stipends. (**Assoc. Ex. 5; Contract Schedule B**)

Irrespective of all of the finger pointing for the reasons for the District's financial woes, it is readily apparent there is a financial problem. Even the Association recognized need for providing some relief.

On March 27, 2006, the Parties signed a Letter of Agreement which settled the financial provisions of the 2005 - 2006 school year. This Letter of Agreement, in part, outlined an agreement from the Association to forfeit specific dollar amounts from the 2005 - 2006 salaries as follows:

Under $50,000	$1,000
$50,000 - less than $60,000	$1,500
$60,000 - less than$70,000	$2,000
$70,000 or more	$2,500

In addition, in further negotiations for future contracts the Association proposed a wage freeze, based on the 2005 - 2006 school year scale, for the 2006 - 2007 and 2007 - 2008 school years as part of the package offered to the District. The Association did not, however, address the wage scale the District considers unique and out of proportion to those district's considered comparable by the District. The District, conversely, feels it necessary to implement its wage proposal which reflects a twelve percent (12%) reduction in total cost in teachers' compensation. The District argues this twelve percent (12%) somewhat correlates to the thirteen percent (13%) reduction in staffing.

In that Mr. Spalding testified at the hearing the District was able to adopt a balanced budget based on the Association's proposal and based on the facts, exhibits and information presented, the Fact Finder recommends that for the 2006 - 2007 and 2007 - 2008 school years the Association proposal be adopted for the teachers in the District. The Fact Finder also recommends the proposal presented by the District on February 14, 2006 be adopted for teachers hired after the commencement of the 2006 - 2007 school year.

PROFESSIONAL COMPENSATION - CONTINUING EDUCATION UNITS

Since 1988 - 1989 teachers have received .0022% of their salary for each unit of training beyond their higher education degree. The District argues this compensation is very costly to the District and unique to this District. Testimony at the hearing revealed that this form of compensation has been included in the contract for an extended period of time. Neither party could provide a date certain when Continuing Education Units (CEU) were first included in the contract.

In the District's presentation it argues that the CUE's were an unscheduled, unilateral pay which is impossible to budget for on a year to year basis. In 2005 - 2006, CEU's equaled four thousand, four hundred dollar ($4,400) cost per teacher on top of salary. Testimony from the District's witness at the hearing indicated that CEU's can be obtained without a grading mechanism and are not necessarily offered by colleges. In fact, CEU's may be obtained through Intermediate School Districts and may not be related to teachers teaching.

It is alleged by the District their proposal does not necessarily entirely eliminate CEU's, but, will change to providing additional pay increases for legitimate work towards advanced degrees and provide for cost controls. (**Bd. Ex. 5**)

The Association asserts only one-half (1/2) of the membership receive payment for CEU's that add up to an additional four thousand, four hundred, eighty dollars ($4,480) for a teacher. (**Assoc. Ex. 5**) The amount paid for CEU's has not changed since 1989. All Association comparables pay in some manner for additional educational training for teachers.

In light of the financial position of the District, the Association proposed red-lining current teachers at the level of CEU pay they receive thereby reducing the ability of a teacher to gain in increase in CEU pay. Additionally, the Association proposed eliminating this language from future contracts thereby prohibiting future teachers from receiving CEU pay.

In the mind of the Fact Finder the Association proposal relating to CEU's appears the best, especially, in light of the possibility of the Fact Finder's recommendation relating to wages being accepted. Red-lining would enable current employees to retain their level of pay and eliminating the language in future contracts would provide a substantial savings to the District. It is therefore recommended the Association proposal be adopted.

TERMINAL LEAVE

Current contract language provides for the payment of unused sick days up to a maximum of one hundred sixty-five (165). The amount paid is forty dollars ($40.00). The Association asserts this amount is considerably lower than any of their comparables presented in their exhibits. The Association proposal would increase the payment for these unused sick days to sixty-five dollars ($65.00) per day.

The District considers the Association proposal irrational in the face of the staggering deficit it is facing. The District calculates the Association proposal to be an increase of two thousand, four hundred, seventy-five dollars ($2,475) per retiring teacher. Considering the bleak financial future facing the District should the student enrollment continue to decline and already facing a negative fund balance it prefers status quo for this benefit.

The exhibits, testimony and facts cause this Fact Finder to agree with the District regarding this matter. Until a more sound financial condition can be attained by the District, it is recommended that this benefit remain status quo.

CALENDAR

This area is somewhat confusing. The Association proposed a calendar that reflects five (5) less that the previous calendar. (**Assoc. Ex. 10**) the Board argues the Association proposal did not match the written proposal and therefore is unacceptable. In reviewing the Association proposal it appears there would be one hundred, seventy-three (173) student days and one hundred, eighty (180) teacher days. It is alleged by the Association that this will result in five (5) less days of pay for teachers. The District presented no specific proposal in this area.

Mr. Spalding testified at the hearing that the calendar would most likely fall into place once other economic matters were resolved.

The Fact Finder recommends the proposal presented by the Association be adopted. (**Assoc. Ex. 10**)

EARLY RETIREMENT

The expired labor agreement contained a provision that provided for an early retirement incentive. Testimony revealed this provision being in existence since 1985. Under the previous language, teachers were provided lump sum payments for teachers who retired during a specific time period under specific conditions. The early retirement incentive was last paid in the 2005 - 2006 school year.

On March 27, 2006, the parties reached a tentative agreement that covered certain economic provisions for the 2005 - 2006 school year. This Letter of Agreement did not address, in any manner, payment for early retirement during the 2005 - 2006 school year. The Letter of Agreement was titled as a modification of the 2002 - 2005 Master Agreement.

The Association proposes modifying the previous language to now include a thirty-five thousand dollar ($35,000) payment for early retirement in the first year of all successor agreements. The payment would be made in installments of $15,000 - $10,000 - and $10,000 with the individual being required to retire through MPSERS with a minimum of ten (10) years teaching or if a teacher with twenty (20) years of teaching with the District severed employment for any other reason.

The District argues this language expired as spelled out in the old language and therefore cannot be resurrected. Since 1996 the early retirement incentive has doubled from twenty thousand dollars ($20,000) to forty thousand dollars ($40,000) and in light of the financial condition of the District this type of expenditure cannot be continued.

In the Association argument it was revealed that nineteen (19) teachers have availed themselves of the early retirement incentive. Of these nineteen (19) individuals, four (4) would have stayed employed longer had there not been an early retirement incentive. Based on an average salary of fifty-three thousand, eight hundred fifty-four dollars ($53,854), the Association argues the District would have faced an additional cost of two million, one hundred fifty-four thousand, one hundred seventy-two dollars ($2,154,172) over the ten (10) years the four (4) teachers would have remained. Based on the Association figures it would appear the District would have saved one hundred seventy-six thousand, four hundred fifty-one dollars ($176,451) in salary alone if it would have had to pay seven hundred fifteen thousand ($715,000) in salary to the teachers.

The District merely points out that the language expired and cannot be resurrected. This type of logic escapes this Fact Finder in that during negotiations ANY proposal may be presented by either side. The Association was well within its rights to propose the inclusion of an early retirement incentive in this and future contracts.

Regardless, this Fact Finder is not persuaded to recommend the early retirement incentive be revived for the duration of this labor agreement. This Fact Finder especially would not be persuaded to include this provision if ALL future labor agreements. It is therefore recommended this provision not be included in the 2006 - 2008 labor agreement.

RECOMMENDATIONS

In conclusion, the Fact Finder's recommendations on the issues are outlined in summary fashion below:

1. **Insurance.**

   Effective as soon as administratively possible, the District shall pay ninety percent (90%)of the monthly hospitalization insurance premium and the employee shall pay ten percent (10%) of the monthly premium.

2. **Wages.**

   The proposal shall be adopted for current members of the bargaining unit for the 2006 -2007 and 2007 - 2008 school years. The District proposal of February 14, 2006 shall be adopted for all teachers hired after the commencement of the 2006 - 2007 school year.

3. **Professional Compensation - Continuing Education Units**

   Adopt the proposal from the Association regarding red-lining current employees and eliminate provision for all teachers hired after the commencement of the 2006 - 2007 school year.

4. **Terminal Leave**

   This provision should remain status quo.

5. **Calendar**

   The proposal from the Association should be adopted.

6. **Early Retirement**

   This provision should not be included in the 2006 - 2008 Master Agreement.

CONCLUSION

Fact finding recommendations are just that - recommendations. The parties in this case have demonstrated the deepness of their convictions, and their representatives and witness have set forth their positions. This Fact Finder took into account the parties positions on the issues and in light of the testimony and evidence presented reached recommendations that he believes are fair and workable for all interests involved. It is hoped that with this Fact Finder's assistance the parties will reach an amicable solution to the problems facing them.

DATED: October 12, 2006

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